

CITY OF RICEVILLE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Riceville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Dean R. Mauer	Mayor	Jan 2004
Marvin Shoger	Council Member	Jan 2004
Alex Adams	Council Member	Jan 2004
Steve Harnack	Council Member	Jan 2006
Terry Byrnes	Council Member	Jan 2006
Dean Eastmen	Council Member	Jan 2006
Trudy O'Donnell	City Clerk	Jan 2006
JoAnn Squier	Deputy Clerk	Jan 2006
Kathryn Levorson	Treasurer	Jan 2006
Harry Jensen	Fire Chief	Jan 2006
Aaron Murphy	Attorney	Jan 2006
Neil Riley	Library Trustee	Jul 2005
Ruth Johnson	Library Trustee	Jul 2005
Mary Eastmen	Library Trustee	Jul 2005
Mark Gaffey	Library Trustee	Jul 2006
Leota Chase	Library Trustee	Jul 2006
Marcia Dohlman	Library Trustee	Jul 2007
Norman Kolberg	Library Trustee	Jul 2007
(After January 2004)		
Dean R. Mauer	Mayor	Jan 2008
Steve Harnack	Council Member	Jan 2006
Terry Byrnes	Council Member	Jan 2006
Dean Eastmen	Council Member	Jan 2006
Marvin Shoger	Council Member	Jan 2008
Alex Adams	Council Member	Jan 2008
Trudy O'Donnell	City Clerk	Jan 2006
JoAnn Squier	Deputy Clerk	Jan 2006
Kathryn Levorson	Treasurer	Jan 2006
Harry Jensen	Fire Chief	Jan 2006
Aaron Murphy	Attorney	Jan 2006
Neil Riley	Library Trustee	Jul 2005*
Ruth Johnson	Library Trustee	Jul 2005
Mary Eastmen	Library Trustee	Jul 2005
Mark Gaffey	Library Trustee	Jul 2006
Leota Chase	Library Trustee	Jul 2006
Marcia Dohlman	Library Trustee	Jul 2007**
Norman Kolberg	Library Trustee	Jul 2007

* Neil Riley resigned in June, Nancy Hall appointed.

** Marcia Dohlman resigned in June, Tove Lockie appointed.

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Riceville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Riceville have not been audited for all prior years. Accordingly we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003 as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 12, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 3, 2004 on our consideration of the City of Riceville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The City has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 15 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Riceville's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2003 as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
August 3, 2004

City of Riceville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 73,629	\$ 3,843	\$ 1,424	\$ -
Public works	182,450	63,791	69,962	-
Health and social services	92	-	-	-
Culture and recreation	60,530	4,392	20,888	-
Community and economic development	80,195	4,913	-	-
General government	39,423	14,923	-	-
Debt service	43,400	-	-	-
Capital projects	-	12,493	-	-
Total governmental activities	\$ 479,719	\$ 104,355	\$ 92,274	\$ -
Business type activities:				
Water	\$ 77,639	\$ 76,199	\$ -	\$ -
Sewer	58,161	39,977	-	-
Total business type activities	\$ 135,800	\$ 116,176	\$ -	\$ -
Total	\$ 615,519	\$ 220,531	\$ 92,274	\$ -
General:				
Property tax levied for:				
General purposes				
Local option sales tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total	
\$ (68,362)	\$ -	\$	(68,362)
(48,697)	-		(48,697)
(92)	-		(92)
(35,250)	-		(35,250)
(75,282)	-		(75,282)
(24,500)	-		(24,500)
(43,400)	-		(43,400)
12,493	-		12,493
<u>\$ (283,090)</u>	<u>\$ -</u>	<u>\$</u>	<u>(283,090)</u>
\$ -	\$ (1,440)	\$	(1,440)
-	(18,184)		(18,184)
<u>\$ -</u>	<u>\$ (19,624)</u>	<u>\$</u>	<u>(19,624)</u>
<u>\$ (283,090)</u>	<u>\$ (19,624)</u>	<u>\$</u>	<u>(302,714)</u>
\$ 134,567	\$ -	\$	134,567
49,501	-		49,501
53	-		53
9,043	-		9,043
92,920	-		92,920
5,000	(5,000)		-
<u>\$ 291,084</u>	<u>\$ (5,000)</u>	<u>\$</u>	<u>286,084</u>
\$ 7,994	\$ (24,624)	\$	(16,630)
363,544	101,110		464,654
<u>\$ 371,538</u>	<u>\$ 76,486</u>	<u>\$</u>	<u>448,024</u>
\$ 9,533	\$ -	\$	9,533
362,005	76,486		438,491
<u>\$ 371,538</u>	<u>\$ 76,486</u>	<u>\$</u>	<u>448,024</u>

City of Riceville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue		
	Local Option		Road Use
	General	Sales Tax	Tax
Receipts:			
Property tax	\$ 90,948	\$ -	\$ -
Other city tax	-	49,501	-
Licenses and permits	2,261	-	-
Use of money and property	9,043	-	-
Intergovernmental	36,317	-	69,962
Charges for service	70,784	-	-
Special assessments	31	-	-
Miscellaneous	15,347	-	-
Total receipts	\$ 224,731	\$ 49,501	\$ 69,962
Disbursements:			
Operating:			
Public safety	\$ 58,894	\$ -	\$ -
Public works	89,896	-	59,636
Health and social services	92	-	-
Culture and recreation	60,510	-	-
Community and economic development	2,699	-	-
General government	39,423	-	-
Debt service	-	-	-
Total disbursements	\$ 251,514	\$ -	\$ 59,636
Excess (deficiency) of receipts over (under) disbursements	\$ (26,783)	\$ 49,501	\$ 10,326
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(6,000)	(43,400)	(15,000)
Total other financing sources (uses)	\$ (6,000)	\$ (43,400)	\$ (15,000)
Net change in cash balances	\$ (32,783)	\$ 6,101	\$ (4,674)
Cash balances beginning of year	182,328	37,351	155,630
Cash balances end of year	\$ 149,545	\$ 43,452	\$ 150,956
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 149,545	\$ -	\$ -
Special revenue funds	-	43,452	150,956
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 149,545	\$ 43,452	\$ 150,956

See notes to financial statements.

Exhibit B

Economic Development		Other Nonmajor Governmental Funds	Total
\$	-	\$ 43,619	\$ 134,567
	-	-	49,501
	-	-	2,261
	-	896	9,939
	-	-	106,279
	-	-	70,784
	-	12,462	12,493
	81,542	-	96,889
\$	81,542	\$ 56,977	\$ 482,713
\$	-	\$ 14,735	\$ 73,629
	-	32,918	182,450
	-	-	92
	-	20	60,530
	77,496	-	80,195
	-	-	39,423
	-	43,400	43,400
\$	77,496	\$ 91,073	\$ 479,719
\$	4,046	\$ (34,096)	\$ 2,994
\$	-	\$ 69,400	\$ 69,400
	-	-	(64,400)
\$	-	\$ 69,400	\$ 5,000
\$	4,046	\$ 35,304	\$ 7,994
	9,771	(21,536)	363,544
\$	13,817	\$ 13,768	\$ 371,538
\$	-	\$ -	\$ 149,545
	13,817	24,948	233,173
	-	(20,713)	(20,713)
	-	9,533	9,533
\$	13,817	\$ 13,768	\$ 371,538

City of Riceville

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 76,199	\$ 39,977	\$ 116,176
Operating disbursements:			
Business type activities	\$ 77,639	\$ 58,161	\$ 135,800
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (1,440)	\$ (18,184)	\$ (19,624)
Other financing uses:			
Operating transfers out	\$ -	\$ (5,000)	\$ (5,000)
Net change in cash balances	\$ (1,440)	\$ (23,184)	\$ (24,624)
Cash balances beginning of year	50,353	50,757	101,110
Cash balances end of year	\$ 48,913	\$ 27,573	\$ 76,486
Cash Basis Fund Balances			
Unreserved	\$ 48,913	\$ 27,573	\$ 76,486
Total cash basis fund balances	\$ 48,913	\$ 27,573	\$ 76,486

See notes to financial statements.

City of Riceville

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Riceville is a political subdivision of the State of Iowa located in Howard and Mitchell Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Riceville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Howard County Assessor's Conference Board, Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Howard County Emergency Management Commission, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw Solid Waste Agency, Howard County Joint E911 Service Board, and Mitchell County Joint E911 Service Board. The City of Riceville also entered into an agreement with the City of Chester to share education and training costs of employees.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for Local Option Sales Tax collected from the State.

The Economic Development Fund is utilized to account for economic development and culture and recreation which better the community.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Riceville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2005	\$ 35,000	\$ 6,720
2006	35,000	5,040
2007	35,000	3,360
2008	35,000	1,680
Total	\$ 140,000	\$ 16,800

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%. The City's contributions to IPERS for the year ended June 30, 2004 was \$8,865, equal to the required contributions for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. However, vacation and sick time is cancelled if not used within the year and upon termination of employment with the city. The City's approximate liability for compensatory time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Compensatory	<u>\$ 3,118</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue:		
Capital Improvement	General	\$ 6,000
Revolving	Special Revenue:	
	Road Use Tax	15,000
	Enterprise:	
	Sewer	<u>5,000</u>
		\$26,000
Debt Service	Special Revenue:	
Total	Local Option Sales Tax	<u>43,400</u>
		<u>\$69,400</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$6,365 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The Capital Projects Fund, 1991 Street Project Account had a deficit balance of \$740 at June 30, 2004. The deficit balance was a result of project cost incurred prior to availability of funds. The deficit will be eliminated through special assessments. The Capital Projects Fund, 2000 Street Project Account had a deficit balance of \$21,930 at June 30, 2004. The deficit balance was a result of project cost incurred prior to availability of funds. The deficit will be eliminated through special assessments. The Special Revenue Fund, Employee Benefits Account had a deficit balance of \$1,052 at June 30, 2004. The deficit balance was a result of unexpected insurance costs incurred during the year. The deficit will be eliminated through normal collections of property tax.

(10) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a

board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Riceville may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(11) Leases

The City leases property from Merlyn Vote for disposal of trees on a \$600 annual lease. The lease expires in 2006. Future payments are \$600 for 2005 and 2006, respectively.

The City leases a building from First Freedom, Inc. for use by the Library. Rent consists of paying the utilities, insurance, and other expenses deemed appropriate. The City is not liable for repairs. The current lease agreement expires December 1, 2009. The City paid \$5,600 toward use of the building for the year ended June 30, 2004.

The City leases a copier machine for the Library from DeLage Laden Financial for \$69 per month. Future payments are \$828 and \$828 for 2005 and 2006, respectively.

Allied Construction entered a lease with the City for use of the old dumpsite. The lease expires in 2006. Future payments to be received by the City are \$1,500 and \$2,250 for 2005 and 2006, respectively.

Head Start programs entered a one year renewable lease with the City for use of the Block Building on July 1, 2002. The City received one annual payment of \$10,328 for the year ended June 30, 2004.

Riceville Country Club leases the land for the golf course from the City. The lease expires in 2027 and there was one payment of \$1 in a prior year.

Trent Linkenmeyer leases a parcel of land from the city. The lease expires in 2005. The city received \$1 for the land for the year ended June 30, 2004. Future payments are \$1 for 2005.

(12) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

City of Riceville
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 134,567	\$ -	\$ -
Other city tax	49,501	-	-
Licenses and permits	2,261	-	-
Use of money and property	9,939	-	-
Intergovernmental	106,279	-	-
Charges for service	70,784	116,176	-
Special assessments	12,493	-	-
Miscellaneous	96,889	-	-
Total receipts	<u>\$ 482,713</u>	<u>\$ 116,176</u>	<u>\$ -</u>
Disbursements:			
Public safety	\$ 73,629	\$ -	\$ -
Public works	182,450	-	-
Health and social services	92	-	-
Culture and recreation	60,530	-	-
Community and economic development	80,195	-	-
General government	39,423	-	-
Debt service	43,400	-	-
Business type activities	-	135,800	-
Total disbursements	<u>\$ 479,719</u>	<u>\$ 135,800</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 2,994	\$ (19,624)	\$ -
Other financing sources (uses), net	<u>\$ 5,000</u>	<u>\$ (5,000)</u>	<u>\$ -</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing sources (uses)	\$ 7,994	\$ (24,624)	\$ -
Balances beginning of year	<u>363,544</u>	<u>101,110</u>	<u>-</u>
Balances end of year	<u>\$ 371,538</u>	<u>\$ 76,486</u>	<u>\$ -</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 134,567	\$ 130,550	\$ 130,550	\$ 4,017
49,501	41,370	41,370	8,131
2,261	2,500	2,500	(239)
9,939	21,400	15,300	(5,361)
106,279	110,847	98,131	8,148
186,960	158,525	158,525	28,435
12,493	9,392	12,205	288
96,889	7,700	98,200	(1,311)
<u>\$ 598,889</u>	<u>\$ 482,284</u>	<u>\$ 556,781</u>	<u>\$ 42,108</u>
\$ 73,629	\$ 70,269	\$ 79,796	\$ 6,167
182,450	221,916	221,614	39,164
92	-	400	308
60,530	53,901	65,276	4,746
80,195	66,000	85,000	4,805
39,423	45,292	47,346	7,923
43,400	43,400	43,400	-
135,800	149,289	144,461	8,661
<u>\$ 615,519</u>	<u>\$ 650,067</u>	<u>\$ 687,293</u>	<u>\$ 71,774</u>
\$ (16,630)	\$ (167,783)	\$ (130,512)	\$ 113,882
\$ -	\$ -	\$ -	\$ -
\$ (16,630)	\$ (167,783)	\$ (130,512)	\$ 113,882
464,654	414,334	464,654	-
<u>\$ 448,024</u>	<u>\$ 246,551</u>	<u>\$ 334,142</u>	<u>\$ 113,882</u>

City of Riceville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$37,226. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

City of Riceville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special	Revenue	
	Employee	Capital	Debt
	Benefits	Improvement	Service
		Revolving	
Receipts:			
Property tax	\$ 43,619	\$ -	\$ -
Use of money and property	-	-	-
Special assessments	-	-	-
Total receipts	\$ 43,619	\$ -	\$ -
Disbursements:			
Operating:			
Public Safety	\$ 14,735	\$ -	\$ -
Public Works	32,918	-	-
Culture and Recreation	-	-	-
Debt Service	-	-	43,400
Total disbursements	\$ 47,653	\$ -	\$ 43,400
Excess (deficiency) of receipts over (under) disbursements	\$ (4,034)	\$ -	\$ (43,400)
Other financing sources:			
Operating transfers in	\$ -	\$ 26,000	\$ 43,400
Net change in cash balances	\$ (4,034)	\$ 26,000	\$ -
Cash balances beginning of year	2,982	-	-
Cash balances end of year	\$ (1,052)	\$ 26,000	\$ -
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ (1,052)	\$ 26,000	\$ -
Capital project fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ (1,052)	\$ 26,000	\$ -

See accompanying independent auditors' report.

Schedule 1

Capital Projects	Permanent			
Street Related	Library Trust	Park Trust		Total
\$ -	\$ -	\$ -	\$	43,619
-	794	102		896
12,462	-	-		12,462
\$ 12,462	\$ 794	\$ 102	\$	56,977
\$ -	\$ -	\$ -	\$	14,735
-	-	-		32,918
-	-	20		20
-	-	-		43,400
\$ -	\$ -	\$ 20	\$	91,073
\$ 12,462	\$ 794	\$ 82	\$	(34,096)
\$ -	\$ -	\$ -	\$	69,400
\$ 12,462	\$ 794	\$ 82	\$	35,304
(33,175)	4,179	4,478		(21,536)
\$ (20,713)	\$ 4,973	\$ 4,560	\$	13,768
\$ -	\$ -	\$ -	\$	24,948
(20,713)	-	-		(20,713)
-	4,973	4,560		9,533
\$ (20,713)	\$ 4,973	\$ 4,560	\$	13,768

City of Riceville
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds: 2000 Street Project	Jul 1, 2000	4.80%	\$ 350,000

See accompanying independent auditors' report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 175,000	\$ -	\$ 35,000	\$ 140,000	\$ 8,400	\$ -

City of Riceville
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds	
	2000 Street	
	Project	
	Issued July 1, 2000	
	Interest Rates	Amount
2005	4.80%	\$ 35,000
2006	4.80%	35,000
2007	4.80%	35,000
2008	4.80%	35,000
Total		<u>\$ 140,000</u>

See accompanying independent auditors' report.

City of Riceville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Fiscal Year

		<u>2004</u>
Receipts:		
Property tax	\$	134,567
Other city tax		49,501
Licenses and permits		2,261
Use of money and property		9,939
Intergovernmental		106,279
Charges for service		6,993
Special assessments		12,493
Miscellaneous		<u>96,889</u>
Total	\$	<u>418,922</u>
Disbursements:		
Operating:		
Public safety	\$	73,629
Public works		134,664
Health and social services		92
Culture and recreation		60,530
Community and economic development		80,195
General government		39,423
Debt service		<u>43,400</u>
Total	\$	<u>431,933</u>

See accompanying independent auditors' report.

Independent Auditors' Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Riceville, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 3, 2004. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003. Except as noted in the Independent Auditors' report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Riceville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior statutory comments have been resolved except for items III-E-04 and III-I-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Riceville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Riceville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Riceville and other parties to whom the City of Riceville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Riceville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
August 3, 2004

City of Riceville

Schedule of Findings

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2003. The financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Riceville

Schedule of Findings

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Riceville

Schedule of Findings

Year ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- III-C-04 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dean R. Mauer, Mayor, Owner of Riceville Lumber	Repairs	\$ 6,365

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor appear to represent a conflict of interest since the total is over \$2,500 and bids were not taken.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will contact legal counsel.

Conclusion – Response accepted.

City of Riceville

Schedule of Findings

Year ended June 30, 2004

- III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the cities investment policy was noted.
- III-I-04 Financial Condition – The Capital Projects Funds, 1991 Street Project Account and the 2000 Street Project Account had deficit balances at June 30, 2004 of \$740 and \$21,930. The Special Revenue Fund, Employee Benefits Account had a deficit balance at June 30, 2004 of \$1,052.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

City of Riceville

Required Supplementary Information

Other Supplementary Information

Basic Financial Statement